HOUSING MARKET OUTLOOK

Trois-Rivieres CMA

Canada Mortgage and Housing Corporation

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Job market sluggish

In the Trois-Rivières census metropolitan area (CMA), the job market will remain sluggish in 2007 and 2008. Following a very slow year in 2006, when the area lost close to 2,000 jobs, the short-term outlook is somewhat brighter. In fact, while far from the 2005 scenario, when the job market had been quite active (more than 6,000 jobs had been created), the 2007 and 2008 results should show employment gains. Of course, these gains will be modest but will still contrast with the 2006 situation.

The manufacturing sector will mainly be responsible for the weaker job market in the area. For some time now, the strong Canadian dollar against the U.S. dollar has been limiting growth in this sector by undermining the competitiveness of manufacturing companies. The latest casualty was Norsk Hydro. Unable to contend with the international competition, this company had to shut down, which resulted in the loss of over 300 jobs.

In 2007 and 2008, the Trois-Rivières area should gain between 300 and 400 jobs annually, for a growth rate hovering between 0.5 per cent and 0.6 per cent. Since it takes a few

Figure 1

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quarters for the impact of the job market to be felt on the housing market, the positive repercussions of the strong job market conditions observed in the area in 2005 should continue to benefit the housing market during the first half of 2007. However, starting in the second half of 2007, and until the end of 2008, the slowdown registered on the job market in 2006 will have a negative effect on the Trois-Rivières area housing market.

Immigration to decline slightly

In recent years, the area has attracted many immigrants, as evidenced by the high net migration levels recorded since 2003. It is interesting to note that a significant share of these immigrants came from other countries. For 2007 and 2008, however, net migration levels should be slightly lower. In fact, the sluggish job market in Trois-Rivières will surely make this area somewhat less attractive to migrants. On the other hand, the area could benefit from the current demographic situation, which will support immigration through the progressive return of many young retirees who had left the area for professional reasons but who now wish to go back there. This trend, which has just started, could intensify over the coming years.

Resale market to remain active in 2007 before slowing down somewhat in 2008

In 2007, the resale market will remain active the Trois-Rivières CMA. Several factors will help stimulate this market throughout the year, starting with the mortgage rates, which will remain affordable. Household formation in the 25 to 34 years' age group, that is, the group representing first-time home buyers, will once again post a gain (more than 200 households annually). In addition, during the first six months of the year, the resale market will continue to benefit from the strong job market conditions observed in 2005. The only negative factor will be the adverse impact of the job market slowdown registered in the area in 2006, which should start to be felt slightly during the second half of the year.

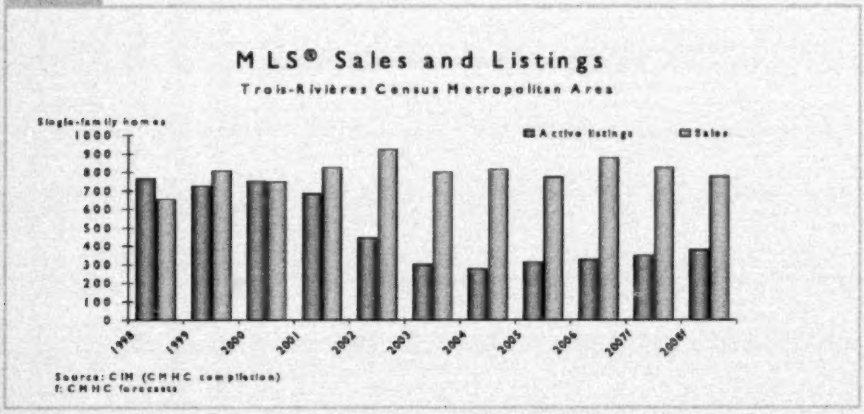
However, the expected increase in the number of properties for sale will offset this negative effect, as the greater choice will allow a number of buyers to find a home in line with their needs. In 2007, there should consequently be a total of 825 transactions[1] recorded in the CMA (compared to 877 in 2006) and an average of 350 properties for sale on the market (versus 324 in 2006).

In 2008, another decrease in sales is expected. Even though mortgage rates will still be relatively low and household formation (25 to 34 years' age group) will remain strong, the poor job market performance registered in 2006 will have a negative impact on the resale market in the Trois-Rivières CMA. In all, 775 sales are anticipated, or 6 per cent fewer than in 2007. Listings, for their part, will continue to rise, and there should be an average of 380 homes for sale.

Price increases to moderate

In recent years, the Trois-Rivières CMA posted significant increases in the average price of single-family homes[2] These hikes of 10 per cent, even 15 per cent, were caused by a unique set of circumstances, namely, a limited number of properties for sale, a pent-up demand and very low mortgage rates. This environment, in which the seller-to-buyer ratio was very low (between 3 and 4 to 1), was marked by overheated conditions, which accounted for such price increases. For the last few quarters now, with the number properties for sale rising slightly faster than the volume of sales, the seller-to-buyer ratio has been able to go back up marginally. At the end of 2006, this ratio reached 4.8 to 1, which inevitably removed some of the pressure on prices. This trend will continue in 2007 and 2008, as the

Figure 2



[1] Small farms, country homes, mobile homes and cottages are not included in the sales figures.
[2] Single-family homes include single-detached, semi-detached and row homes.

seller-to-buyer ratio will rise again. In 2007, the average price of single-family homes will attain $120,000, for an increase of 3.5 per cent in relation to 2006. Then, in 2008, homes of this type will sell for an average price of $123,000, up by 2.5 per cent over 2007.

Residential construction to slacken the pace

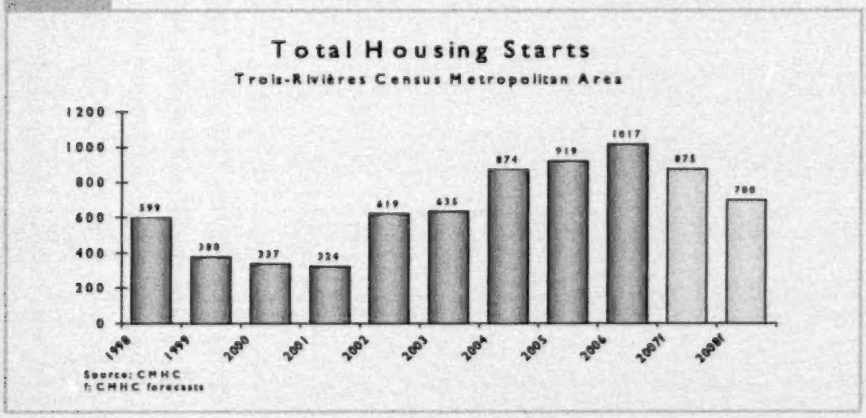
After three very active years for residential construction in the Trois-Rivières CMA (over 800 starts annually), and a record year in 2006, with the highest level of starts in the last 15 years, the pace should slow down over the next two years. Once again, the weaker job market in 2006 will be mainly responsible for this slowdown. In 2007, there should be a total of 875 starts on the Trois-Rivières territory while, in 2008, the decline will be slightly more significant, as foundations should be laid for 700 dwellings.

Despite these anticipated decreases in residential construction, it should be noted that the starts volumes will still be considerable and above the average for the last 10 years (610 starts annually). Home buying conditions will therefore continue to contribute to the vigour of this market.

All market segments will register decreases in activity. A total of 450 homeowner dwellings[1] will be started in 2007, while the decline will be slightly more pronounced in 2008 (with a total of 425 starts). In fact, the growth in the 25 to 64 years' age group will be somewhat more modest in 2007 and even weaker in 2008. In addition, the expected decrease in net migration will also drive down housing demand.

On the other hand, while it is expected that there will be a wider choice of existing properties for sale, this choice will still remain limited, which will support demand for new homes. As well, demand for rental housing will remain strong on account of the particularly tight conditions on the rental market in the Trois-Rivières CMA, which is helping to boost rental housing construction. In 2007, 425 rental housing units should be started, but only 275 in 2008, mainly as a result of the anticipated easing of the rental market in 2008.

Figure 3



Rental market expected to ease

The rental market, which tightened in 2006 in the Trois-Rivières CMA, mainly on account of the strong job market performance posted in 2005, should ease somewhat in 2007. A continued steady supply, which will be reflected in still significant rental housing construction, combined with a less pressing demand, will contribute to pushing the vacancy rate back up. The decline in demand will be mainly due to the slowdown on the job market since the beginning of 2006 and, as a result, a decrease in migration in favour of other agglomerations. These conditions will effectively favour an easing of the rental market, and the vacancy rate will go back up slightly to 1.5 per cent in 2007 (compared to 1.0 per cent in 2006). The increase in the average rent will gradually move closer to the inflation rate, as the expected easing of the market will lessen the upward pressure on rents. The average rent for two-bedroom units should rise by about 2.5 per cent. Even with the anticipated increase in the vacancy rate in 2007, the market will still be qualified as tight, which will justify an increase in the average rent slightly above the expected rate of inflation.

[1] *Homeowner dwellings include single-family, semi-detached and row homes, as well as condominiums.*

In 2008, for the same reasons, the easing trend should continue. The vacancy rate will therefore rise again, reaching 2.0 per cent, while the increase in the average rent for existing two-bedroom units will be lower, at 2.0 per cent.

Mortgage rates to stay low

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2008. Short-term mortgage rates will also ease as the prime rate nudges down over the next twelve months, while long-term mortgage rates will rise slightly in line with bond rates.

One-, three- and five-year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-7.00 and 6.25-7.25 per cent ranges, respectively, over the rest of this year and in 2008.

Forecast Summary
Trois-Rivières CMA
Spring 2007

	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	816	773	877	825	-5.9	775	-6.1
MLS® New Listings	279	313	324	350	8.0	380	8.6
MLS® Average Price ($)	102,000	112,250	115,890	120,000	3.5	123,000	2.5
New Home Market							
Starts:							
Single-Detached	384	367	372	350	-5.9	325	-7.1
Multiples	490	552	645	525	-18.6	375	-28.6
Starts - Total	874	919	1,017	875	-14.0	700	-20.0
Average Price ($):							
Single-Detached	149,564	166,673	176,831	185,670	5.0	193,100	4.0
Median Price ($):							
Single-Detached	145,000	160,000	165,000	170,500	3.3	174,800	2.5
New Housing Price Index (% chg) (Que.)	1.3	1.4	1.5	n/a	-	n/a	-
Rental Market							
October Vacancy Rate (%)	1.2	1.5	1.0	1.5	0.5	2.0	0.5
Two-bedroom Average Rent (October) ($)	457	474	488	500	2.5	510	2.0
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.40	0.10	6.29	-0.12
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	6.63	0.18	6.80	0.17
Annual Employment Level	63,425	69,375	67,325	67,675	0.5	68,100	0.6
Employment Growth (%)	-2.3	9.4	-3.0	0.5	-3.5	0.6	0.1
Unemployment rate (%)	10.7	9.2	8.1	8.5	-	8.8	-
Net Migration	757	590	592	300	-49.3	250	-16.7

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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